

**Peralta Community College District
Retirement Board Meeting Minutes
October 8, 2015**

Present: Trustee Cy Gulassa, Trustee Bill Riley, Trustee Bill Withrow, Vice Chancellor Ron Little, Vice Chancellor Trudy Largent, Jerry Herman (PRO), Michael Mills (PRO), Michael Wirth (PRO), James Blake (Local 1021), Tim Brice (Local 39), Tae-Soon Park (PFT), Ed Berman (Neuberger Berman), Bill Wallace (Neuberger Berman), Joanna Bowes (KNN), Judith Boyette (Hanson Bridgett)

Absent: Trustee Meredith Brown,

Guests:

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	3:04 PM	
III. Approval of Agenda	<p>Motion (Riley, Largent) to approve the October 8, 2015 agenda.</p> <p>Discussion: Trustee Withrow stated that this Board is not a committee of the Board of Governors and is not part of the institution. This Board is an independent body mandated by the State and charged with the management of the trust funds to accommodate retiree health care for those employees hired prior to July 1, 2004. There are five Board members who are legally responsible to ensure that a reasonable set of actions take place to preserve the trust fund assets so that they can carry out and cover the liability. The designated advisors also fit into that picture; you all represent various categories that are legally defined in name to ensure that you put forth your issues/concerns and support in terms of what we do as a Retirement Board.</p> <p>We have items on this agenda that are of interest, legally or otherwise, to the five members of this Board, but not with this hat. For example, we have an update on the B2 tranche remarketing and the plan revision timeline. Those are the responsibility of the institution as well as the Board of Governors. The plan was to go out, borrow money, take the proceeds, and put it into a trust fund, which comes into the cognizant of the Retirement Board. But the bonds come under a different set of guidelines and the institution as a whole. The five members on this Board definitely have an interest in it. Trustee Withrow is concerned that having the Retirement Board discussing those issues and qualified in the minutes will make it look like the Retirement Board had a role</p>	

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	<p>in that, which the Retirement Board does not. We have difficulty articulating to different authorities what we do, how we are doing it, and why we are doing it. Trustee Withrow thinks we need to simplify it and develop firewalls. He stated again that the institution went out and borrowed money to put it into the trust. This Board is responsible for the management and the preservation of those funds in the trust to carry out the obligation of covering retiree health care. The information definitely has to be made to the Governing Board. It is their responsibility.</p> <p>Per VC Little, part of the role of the Substantive Plan as per GASB 43 and 45, is to lay out the terms of the retirement program and the agreements made with employees and the approving authorities including this Board and the Governing Board. The reason why we put those items on this agenda is to give this Board an overview as to why we thought a revision is necessary and what key components of that plan we might be looking at revising over the next few months vis-a-vie the Accrediting Commission for Community and Junior Colleges (ACCJC) and audit findings.</p> <p>Motion (Withrow, Riley) To approve the October 8, 2015 agenda but pull agenda items VII. B2 Tranche Remarketing and IX. Substantive Plan Revision Timeline. To call for individuals to sit down and redefine an agenda item for the next meeting that meets your objectives. APPROVED. AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 1</p>	
<p>IV. Approval of Minutes</p>	<p>Motion (Largent, Brown) to approve the July 23, 2015 meeting minutes. APPROVED AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 1</p>	

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<p>V. Correspondence</p>	<p>None</p>	
<p>VI. Investment Portfolio Review</p> <p>Bill Wallace and Ed Berman</p> <p>Neuberger Berman</p>	<p>Investment Portfolio Review Highlights:</p> <p>As of August 31, 2015, it has been an interesting and volatile market. The S&P 500 market is down 1% in total for the month of September. Page 45 contains the unaudited market value for September. At the end of August, the portfolio is at \$204 million. That is substantially above the estimated Present Value of the liability from your actuary study.</p> <p>Note: There is a high water mark in terms of total assets in the portfolio. At one point this year, it was up around \$220 million. The portfolio YTD (end of August) was down in aggregate 2.76%. It is down 5.64% in the last three months.</p> <p>Page 4: Net withdrawal of \$5.1 million in the month of June due to cash flow and performance.</p> <p>Page 5: Overall performance by different asset class and investment manager. Total Fixed Income is at 35.5% of the portfolio. Of which 6.2% of the portfolio is in High Income Bond, 3.4% is in Emerging Market Debt Fund, 10% is in credit related holding. We want to be short duration in the portfolio with lower sensitivity to the potential of increasing interest rates and higher exposure to the credit side of the market.</p> <p>Page 6: Important. The portfolio is -5.64% vs. -4.42% blended policy benchmark. That means in aggregate we were 122 basis points or 1.22% behind the benchmark. Where did it come from? Look at Fixed Income vs. Equity vs. policy. Total Fixed Income underperformed -1.75% vs. -.55% Barclays Capital US Aggregate. Whereas on the equities side, Equity was -8.07% vs. -8.14% MSCI ALL Country World Index. The challenge that we</p>	

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had from a performance standpoint in the Trailing 3 Months was on the Fixed Income side.

Page 7: Trailing 3 Months High Income Bond is -3.74%. However, it did outperform its own benchmark. On the other side, the Emerging Market Debt portfolio was -6.62%, which underperformed compared to its benchmark.

Trustee Withrow added we should do better when the Equity market is going down because we have a buffer (assets in Fixed Income).

Page 11: It is better to be in developed markets than in emerging markets. Bottom left hand corner shows how various sectors have performed. There have been a couple of real challenging areas: i.e. energy as a whole is down 16%. Overall S&P 500 to be down this quarter, if we pull energy out of it, it is not that bad.

Page 13: Growth expectations. 2013, 2014, and 2015-16 (projected growth). 2.5% growth for the US is not that bad. A lot of people would point to China as a challenge and an issue. However, China's growth is slowing but still at 6.8%. China is included in the Emerging Market Equity indexes. It is the second largest market in the world. China produces a Korea every year and an India every two years.

Page 14: Global PMI. Any number above 50 suggests that market (from a GDP perspective) is growing and below 50 is slowing/contracting. Most of the world is expanding. Neuberger Berman is very constructive on the overall economic growth.

Page 21: US Business Cycles. The average post-war recovery is less than five years. We are on a 6th year recovery. This is a pretty good recovery by historical standards.

Page 23: Summary of the Asset Allocation Committee. We have taken down

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	<p>our outlook for Emerging Market Debt. Part of the challenge that we see in Emerging Markets Debt tends to be more driven by macro issues such as challenges that people see in places like Greece, Brazil and Russia. These are places that we have limited or no exposure. On the Equity side, we are rather constructive. When you pull energy out of the mix, the outlook is good. We have moved up our expectation for US Large Cap Growth. More recent, it has been a risk off market. People have been moving away from what they perceived to be more risky assets, including High Yield. Today you are compensated to take that risk. The average High Yield today is close to 8%. We think the risk is quite reasonable.</p> <p>Page 26: Market corrections are by definition impossible to predict. Speculations that we see today is the decline in the Chinese market. The Chinese market pulled back and exuberated markets here. Greece is in a much better place. Note: Peralta does not have any Greek debt. Many people expected the Fed to increase interest rates. We think that would happen later this year or early next year. If you look at page 26, the average correction dating back to 1976 is about 18%; we are about 12% today.</p> <p>Page 27: Expectations for earnings growth in 2015. Challenge on the energy side.</p> <p>Page 35: Very constructive on the High Yield market today. One of the challenges in a High Yield market is a very significant part of the market is energy driven. About 14% of the total US Merrill Lynch High Yield Index is in energy. The fundamental earnings growth outlook for the overall market is very good. Companies have been deleveraging over the years. When we look at expectations, the outlook for defaults is less than 2% (close to 1%). Good by historical standards. The gray line here is for Option Adjustment Spreads (OAS). The differential and the interest rate between the High Yield index and US Treasury. What you see here is that spreads have widened. You will see buy in the market when the spreads approach 6% and sell when yield spreads drop below 3-5%.</p>	
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Page 44: Middle Column. Long-Term Target of the strategic asset allocation. Part of why you have different things in your portfolio, is from a diversification standpoint. Overall correlation perspective, it can be a diversifier. It can be something that goes up while other things go down. We look at what happens in the market. If the market is down, we are underweight, what should we rebalance to bring it back up appropriately? If the market outperforms, should we pull back? We make sure those decisions are made in an intelligent way. We want to be true to the process and smart about how to implement it. We like the market and think the yields are attractive, 5%. In fact most of the emerging markets around the world, in terms of debt to GDP, are substantially better than the US. Many of these markets are healthy. We see real development of corporate emerging market debt market. It is growing in the last 10 years. The concern today is the macro things we see such as Brazil and Russia. The Emerging Market Debt team is made up of 24 professionals. We have people stationed in Singapore and Atlanta (easy access to Latin America).

We follow the guidance of our asset allocation committee in terms of making tactical shifts against your strategic targets. We have internal and external managers to fill asset class slots. We were watching Pinnacle closely. Pinnacle has been dropped off our approved list. We are replacing Pinnacle because they moved towards the value side of growth. Growth has outperformed value. We expect a growth manager to perform better than a value manager in the market that we have had. We have tweaked our Genesis fund and aligned with three equal slices of Small Caps space: Genesis, Small Cap Intrinsic Strategy, and Kayne Anderson Rudnick Small Cap Growth. Usually when small companies are bought by large companies, you will see a small bump. These changes started about a week ago and will be finishing up soon.

Trustee Withrow asked what kind of research is done to pick out one of these funds vis-a-vie a series of alternatives external managers. Per Mr. Berman, Neuberger Berman has a contract with an outside research provider, Envestnet,

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	<p>who does investment consulting and research. They have researched thousands of managers and have scale. The information provided is proprietary information with an institutional focus.</p> <p>Mrs. Bowes asked why Neuberger Berman is going to an outside model approved consultants. What is the motivation? Per Mr. Berman, Neuberger Berman has many strategies and really good managers that are in-house. We do not have some of the strategies from the external managers that are deployed here. For example, Clearbridge All Caps Growth contains a lot of tech stocks in that portfolio. If you look at the Neuberger Berman list, we do not have a strategy like that. There is a time where it is the right time to deploy that type of strategy. Mr. Wallace added that there was a team at ING for 15 years. Neuberger Berman lifted that team out and they have been on the ground with Neuberger for two years now. Before we had that team, we deployed an external Emerging Market Debt team, because we felt the debt strategy was an appropriate strategy.</p> <p>Matt Ruben is the Chief Investment Manager of our company and also a member of the Asset Allocation Committee. His team writes reports on internal managers, manages internal managers and external manager process. Matt and his team decide which internal managers are deployed for the fiduciary clients that we have. The team is aware of manager styles and managers' favorite sectors.</p>	
<p>VII. Update On B-2 Remarketing</p>	<p>Tabled for the next meeting.</p>	
<p>VIII. Update on Trust Documents</p> <p>Judith Boyette Hanson Bridgett</p>	<p>Mrs. Boyette has been reviewing various documents to be sure that the documents pertaining to the Board in fact comply with all the requirements and particularly State laws. We have some complex issues involved, but we do have a schedule where we will be able to, at the next meeting, have proposed draft changes to the bylaws and documents that would strengthen the fiduciary process for this Board. For example, when the Board was setup they adopted</p>	

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the bylaws (posted on the website). Section 1 talks about setting up this Retirement Board. It indicates that “The Board has been established to manage, direct and control the Fiduciary, Trust Settlor and Administrative functions...” In most cases, you will see the Board performing fiduciary and administrative functions. The settlor functions are normally (in public sectors) the responsibility of the employer. The settlor is the one who setup the benefits and is obligated for the benefits. The documents are a bit confusing at the moment. Not that it is illegal to set it up this way. You need to be careful in what capacity you are taking action. I would normally recommend that you try to leave settlor functions with the employer and have your Retirement Board focus on what under the Constitution is your primary fiduciary duty to the members and beneficiaries of the retiree medical program.

Concern was expressed by Trustee Withrow regarding not having a Memorandum of Understanding (MOU) between the Board and the Institution. Per Ms. Boyette, normally you look to your bylaws.

Mr. Herman requested clarification on the two sides of the division. Ms. Boyette explained that the employer is Peralta/District. The employer established the Collective Bargaining Agreements, policies, and procedures. They have established a plan for providing retiree medical benefits. The action of putting in money into a trust is a Settlor function. Once the money is in the Trust, then you have trustee fiduciary (Retirement Board) that takes care of the trust funds on behalf of the people who the funds were set aside for.

The bylaws are not very clear. A question was raised on the Substantive Plan. The bylaws actually say that this Board will oversee the preparation and centralized maintenance of the comprehensive client plan which includes the Substantive Plan. That’s not a fiduciary function. That is part of the employer’s responsibility for outlining their obligations and how they intend to meet them.

Mrs. Boyette will try to outline where the legal constraints are and what

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	<p>responsibilities are fiduciary because of the liability. It talks about providing insurance for the Retirement Board members. Trustee Withrow stated that he has not seen any D&O insurance. It was talked about 8 years ago.</p> <p>Mrs. Bowes asked, “What is the body of law that governs the setup of a Retirement Board?” Many community colleges have Retirement Boards and bylaws. You all follow the same laws. Are you trying to bring us into general compliance with CA laws and CA community colleges? Per Mrs. Boyette, under government law and public agency law unless you have a Retirement Board, otherwise there are a lot of constraints on public agencies as to what you can invest in. The Retirement Board is exempt, but subject to the fiduciary responsibilities, government code and constitution, and general fiduciary standard. Mrs. Boyette will make sure that this Board and the District have clearly defined roles and legal constraints.</p> <p>Trustee Gulassa asked about SWAPs. The potential of investigating changes in those SWAPs either via lawsuit or engagement/agreement. How does that all work vis-a-vie this group here? Per Trustee Withrow, the District entered into those agreements, not the Retirement Board. Mrs. Bowes stated that the District is the SWAP counter party, not the Retirement Board.</p> <p>Mr. Herman asked if Mrs. Boyette’s compensation comes from the District or the Retirement Board Trust. Mrs. Boyette is employed by the District. Concern was expressed regarding potential conflict of interest. Mrs. Boyette explained that a lot of the situations where she had provided advice to public sector/pension systems, many times the employer pay the expenses. Trustee Withrow requested that we need to have a MOU between the Retirement Board and the Institution covering such things.</p> <p>Another issue is the irrevocability in the sense what the assets are set aside for. Then there is irrevocability under GASB 45. Per Trustee Withrow, under CA law, what are the State mandates from the standpoint of irrevocability? We need to be assured that we are in conformance with State law, having to do</p>	
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	<p>with irrevocable funds.</p> <p>Per Mrs. Boyette, under this trust, there are only three ways to get money out from this trust:</p> <ol style="list-style-type: none">1. Pay retiree medical related expenses;2. If there is a default on the bonds, the money is obligated to the bondholders (pledged); or3. Provision, if there is more than enough money in the trust to pay for obligations for the benefits, then money can be used but only to pay off the bond obligation. In essence is more securing the benefits and lowers the chance of default. <p>Trustee Withrow gave an example using Compton Community College District, who went into liquidation. If that happens to Peralta, that is when the provision would kick in. The trust funds would be pulled back to pay off the bonds. Trustee Withrow requested a legal review of this. He also suggested that we need a methodology for auditing and certification going to this Board that things were done correctly and legally.</p> <p>Per Mr. Wallace, that language is in the amendment which the RB accepted at the last meeting. VC Little will bring this item that back for review.</p> <p>Per Trustee Withrow, even if Neuberger Berman loses all the money in the trust, the District is still liable for the retiree medical benefits.</p> <p>It will take a little time for Mrs. Boyette to mostly get familiar with the Board documents, our organization, and circumstances. She will bring something back to the next meeting.</p>	
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<p>IX. Substantive Plan Revision Timeline</p> <p>Ron Little Vice Chancellor</p>	<p>Tabled for the next meeting.</p>	
<p>X. Upcoming Meetings Schedule</p>	<p>January 28, 2016 April 14, 2016 July 14, 2016 October 13, 2016</p>	
<p>XI. Information Reports</p>	<p>Note: We need to add Advisory Member comments.</p> <p>Mr. Herman brought copies of the PRO newsletter. He wrote two articles: one on OPEB and the other on unfunded bonds.</p> <p>Trustee Gulassa requested clarification on the relationship between this Board and the regular Board. The regular Board came out with a resolution on the divestment in fossil fuel. The resolution is still outstanding. Periodically get angry calls why we haven't rearranged our investments. We need to make public that we cannot fulfill the order or that we cannot fulfill/honor to an extent.</p> <p>Per Mrs. Boyette, this board has the fiduciary obligation and hired someone who makes the investment decisions. Your duty is to monitor the Discretionary Trustee. The Discretionary Trustee actually decides where the money is to be invested.</p>	
<p>Adjournment:</p>	<p>4:46 PM</p>	
<p>Next meeting:</p>	<p>January 28, 2016 from 3:00 to 5:00 PM</p>	

Minutes taken: Sui Song

Attachments: All handouts for this meeting can be found at <http://web.peralta.edu/retirement-board/meeting-materials/>.